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EXDIS

DEPARTMENT PASS USTR AND ELECTRONICALLY FOR AGRICULTURE FAS

E.O. 12356: DECL: OADR
TAGS: ETRD, EAGR, CH
SUBJECT: DEMARCHE ON CHINESE PURCHASE OF US GRAIN

REFS: (A) STATE 240766, (B) BEIJING 13070

1. CONFIDENTIAL - ENTIRE TEXT

2. SUMMARY AND RECOMMENDATION. I MADE THE REQUESTED DEMARCHE TO MOFERT'S WANG PINGXING ON THE MORNING OF AUGUST 2. THE CHINESE INFORMED ME THAT THEY WOULD SOON BE SENDING A DELEGATION TO WASHINGTON FOR CONSULTATIONS; CLAIMED THAT TAKING PREVIOUS YEAR'S PURCHASES INTO ACCOUNT, THEY ARE FULLY COMPLYING WITH THE TERMS OF THE LTA; AND LINKED REDUCED GRAIN PURCHASES THIS FAR THIS YEAR TO THE PROLONGED TEXTILE NEGOTIATIONS. I RESPONDED BY REMINDING THEM THAT THE LTA DOES NOT PROVIDE FOR AVERAGING OF ANNUAL PURCHASE OBLIGATIONS AND THAT FAILURE TO MEET THEIR COMMITMENT THIS YEAR IS LIKELY TO RAISE QUESTIONS IN MANY SECTORS ABOUT CHINA'S RELIABILITY IN MEETING OTHER COMMITMENTS.

3. AT A LUNCHEON THE SAME DAY HOSTED BY ECONCOUNS, ANOTHER MOFERT OFFICIAL INFORMED US THAT CEROILS HAS ALREADY ENTERED THE US GRAIN MARKET, THAT SUBSTANTIAL PURCHASES ARE LIKELY BY YEAR'S END, AND THAT LIFTING OF THE EMBARGO ON COTTON, SOYBEANS AND SYNTHETIC FIBERS MAY BE IMMINENT.

4. I RECOMMEND THAT WASHINGTON FOLLOW UP WITH ADDITIONAL HIGH-LEVEL REPRESENTATIONS TO THE CHINESE EMBASSY. PRESSING FOR EARLY SCHEDULING OF CONSULTATIONS, WHILE EMPHASIZING THAT FROM THE US STANDPOINT THE EXPLANATIONS THEY HAVE OFFERED CANNOT IN ANY WAY RELIEVE THEM OF THEIR OBLIGATIONS UNDER THE LTA THIS YEAR, AND THAT THEIR REPUTATION FOR FIDELITY TO INTERNATIONAL AGREEMENTS IS AT STAKE. IN THE MEANTIME, I SUGGEST WASHINGTON SERIOUSLY CONSIDER US OPTIONS IN THE LIKELY EVENT THAT CHINESE GRAIN PURCHASES FALL SUBSTANTIALLY SHORT OF THEIR COMMITMENT. THIS WILL

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PROBABLY BE THE KEY ISSUE IN FORTHCOMING CONSULTATIONS.
END SUMMARY AND RECOMMENDATION.

5. I CALLED ON WANG PINGXING, AN ADVISOR TO MOFERT'S MINISTER CHEN MU-HUA DESIGNATED TO REPRESENT HER ON GRAIN ISSUES. AFTER MAKING THE ARGUMENTS IN REFTEL A, I ADDED MY OWN CONCERN THAT THE VIOLATION OF THE LTA BY CHINA COULD LEAD MANY IN THE US TO QUESTION WHETHER CHINA WILL LIVE UP TO ITS COMMITMENTS IN OTHER AREAS. I ALSO REMINDED WANG THAT AMERICAN FARMERS AND GRAIN INTERESTS HAVE BEEN FIRMLY COMMITTED TO LONG-TERM DEVELOPMENT OF US-CHINA TRADE AND, PARTICULARLY, WERE VERY IMPORTANT PLAYERS IN THE RECENT SUCCESSFUL CONCLUSIO OF THE TEXTILE AGREEMENT.

6. WANG RESPONDED THAT HE DID NOT CONCUR IN MY ASSESSMENT THAT CHINA HAS OR IS ABOUT TO "VIOLATE" ITS AGREEMENT WITH THE US TO PURCHASE AND SHIP AT LEAST 6 MILLION TONS OF GRAIN PER YEAR. ON THE CONTRARY, HE SAID, CHINA HAS PAID CAREFUL ATTENTION TO AND TAKEN AN ACTIVE ATTITUDE TOWARD IMPLEMENTATION OF THE LTA. WANG ARGUED THAT IF CHINA'S PURCHASES FOR 1981-83 ARE AGGREGATED, IT COULD BE SEEN THAT THE TOTAL (19.43 MILLION TONS) EXCEEDS THE THREE-YEAR MINIMUM "STIPULATED TARGET" (18 MILLION TONS). WANG LINKED RELATIVELY LOWER GRAIN PURCHASES FROM THE US THIS YEAR TO THE TEXTILE NEGOTIATIONS. HE SAID THE REDUCTION HAD BEEN IN RESPONSE TO THE UNILATERAL TEXTILE CONTROLS THE US IMPOSED LAST JANUARY, AND WITH THREE QUARTERS OF THE YEAR GONE BY THE TIME THE TEXTILE AGREEMENT WAS SIGNED (SIC). IT WOULD BE RATHER DIFFICULT TO PURCHASE THE STIPULATED MINIMUM TARGET. AS EVIDENCE OF THE SERIOUSNESS WITH WHICH CHINA VIEWS THE LTA, AND ITS INTENTION TO IMPLEMENT THAT AGREEMENT, CHINA WILL SOON BE SENDING A CEROLS DELEGATION TO WASHINGTON FOR THE CONSULTATIONS REQUESTED BY THE US.

7. IN REPLY, I INDICATED THAT I WAS PLEASED THAT CHINA HAD FINALLY AGREED TO CONSULTATIONS THAT THE US HAS BEEN SEEKING FOR SOME TIME. (WANG, HOWEVER, WOULD NOT BE PINNED DOWN ON A TIME FRAME MORE SPECIFIC THAN "SOMETIME SOON"). WHEN I ASKED WHETHER CHINA'S "BEST EFFORTS" TO IMPLEMENT THE LTA WOULD INCLUDE IMMEDIATELY BUYING LARGE QUANTITIES OF GRAIN FROM THE US, WANG SAID THAT WAS AN ISSUE FOR THE CHINESE DELEGATION TO DISCUSS IN WASHINGTON CONSULTATIONS.

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8. I CONCLUDED THE SESSION BY ELABORATING ON TWO POINTS RELATED TO CHINA'S EXPLANATION FOR NON-COMPLIANCE WITH THE LTA:

-- THE AGREEMENT IN NO PLACE ALLOWS FOR AVERAGING. ON THE CONTRARY THE AGREEMENT IS INTENDED TO PROVIDE FOR ORDERLY US-PRC GRAIN TRADE AND WHAT THE CHINESE HAVE DONE CAN ONLY BE SEEN AS DISRUPTIVE. FAILURE TO PURCHASE AND SHIP SIX MILLION TONS IN 1983 WILL BE A VIOLATION OF BOTH THE LETTER AND THE SPIRIT OF THE AGREEMENT.

-- PERHAPS MOST SERIOUS IS THE IMPLICATIONS THAT CHINESE NON-COMPLIANCE WITH THE LTA COULD HAVE FOR OTHER ECONOMIC RELATIONS. I POINTED OUT THAT WANG'S REMARKS IMPLIED CHINA COULD USE DISSATISFACTION IN ANY GIVEN AREA AS JUSTIFICATION FOR NOT MEETING SPECIFIC OBLIGATIONS FORMALLY

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UNDERTAKEN IN OTHER UNRELATED AREAS. MANY PEOPLE IN THE US ARE LIKELY TO REACH THIS CONCLUSION IF CHINA PERSISTS IN THE LINE OF ARGUMENT PRESENTED BY WANG.

9. WANG THANKED ME FOR CALLING ON HIM AND ASSURED ME THAT MY REMARKS WOULD BE CONVEYED TO MINISTER CHEN.

10. IN A LUNCH HOSTED LATER THE SAME DAY BY ECONCOUNS, MOFERT'S LI SHUDE, THIRD BUREAU DIRECTOR, SAID WANG HAD FAILED TO TELL ME THAT CHINESE BUYERS ARE ALREADY BACK IN THE US GRAIN MARKET. WHEN ASKED WHETHER CHINA INTENDED TO FULFILL ITS 1983 PURCHASE COMMITMENT, LI SAID ONLY THAT CHINA WOULD MAKE ITS "BEST EFFORT". HE WAS DOUBTFUL THAT NEW PURCHASES AND SHIPMENTS WOULD REACH 3.5 MILLION TONS BY DECEMBER 31, BUT HE WAS OPTIMISTIC THAT THE AMOUNT WOULD BE SUBSTANTIAL. LI ALSO STATED THAT IN THE NEXT FEW DAYS HE EXPECTED AN ANNOUNCEMENT FORMALLY LIFTING THE JANUARY EMBARGO ON PURCHASES OF US COTTON, SOYBEANS, AND CHEMICAL FIBER.

11. COMMENT. IT WILL BE NECESSARY TO CONTINUE PRESSING THE CHINESE TO MEET THEIR GRAIN PURCHASE COMMITMENT, AND TO MAKE CLEAR THAT THE EXPLANATIONS THEY HAVE OFFERED TO DATE -- AVERAGING THIS YEAR'S WITH PRIOR YEARS' PURCHASES AND LINKING GRAIN PURCHASES TO THE TEXTILE AGREEMENT -- ARE UNSATISFACTORY. I INTEND TO RAISE THIS ISSUE AGAIN WITH THE CHINESE, AND I RECOMMEND FURTHER HIGH-LEVEL WASHINGTON REPRESENTATIONS. AT THE SAME TIME, EVEN IF THE CHINESE MAKE THEIR "BEST EFFORTS" TO PURCHASE US GRAIN IN THE NEXT FOUR MONTHS, THEY SEEM LIKELY TO FALL SHORT OF THEIR COMMITMENT. I BELIEVE IT IS TIME TO CONSIDER SERIOUSLY THE OPTIONS AVAILABLE TO US IN THAT EVENT (E.G. INSISTING THAT ANY SHORTFALL BE ADDED TO THE 6 MILLION TON MINIMUM PURCHASE LEVEL FOR CY 84), PARTICULARLY SINCE THE CHINESE THEMSELVES MAY WANT TO MAKE THAT ISSUE A MAJOR TOPIC OF DISCUSSION IN THE FORTHCOMING CONSULTATIONS. END COMMENT. HUMMEL
END OF MESSAGE

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